Country Report

Zimbabwe

July 2009

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The Economist Intelligence Unit

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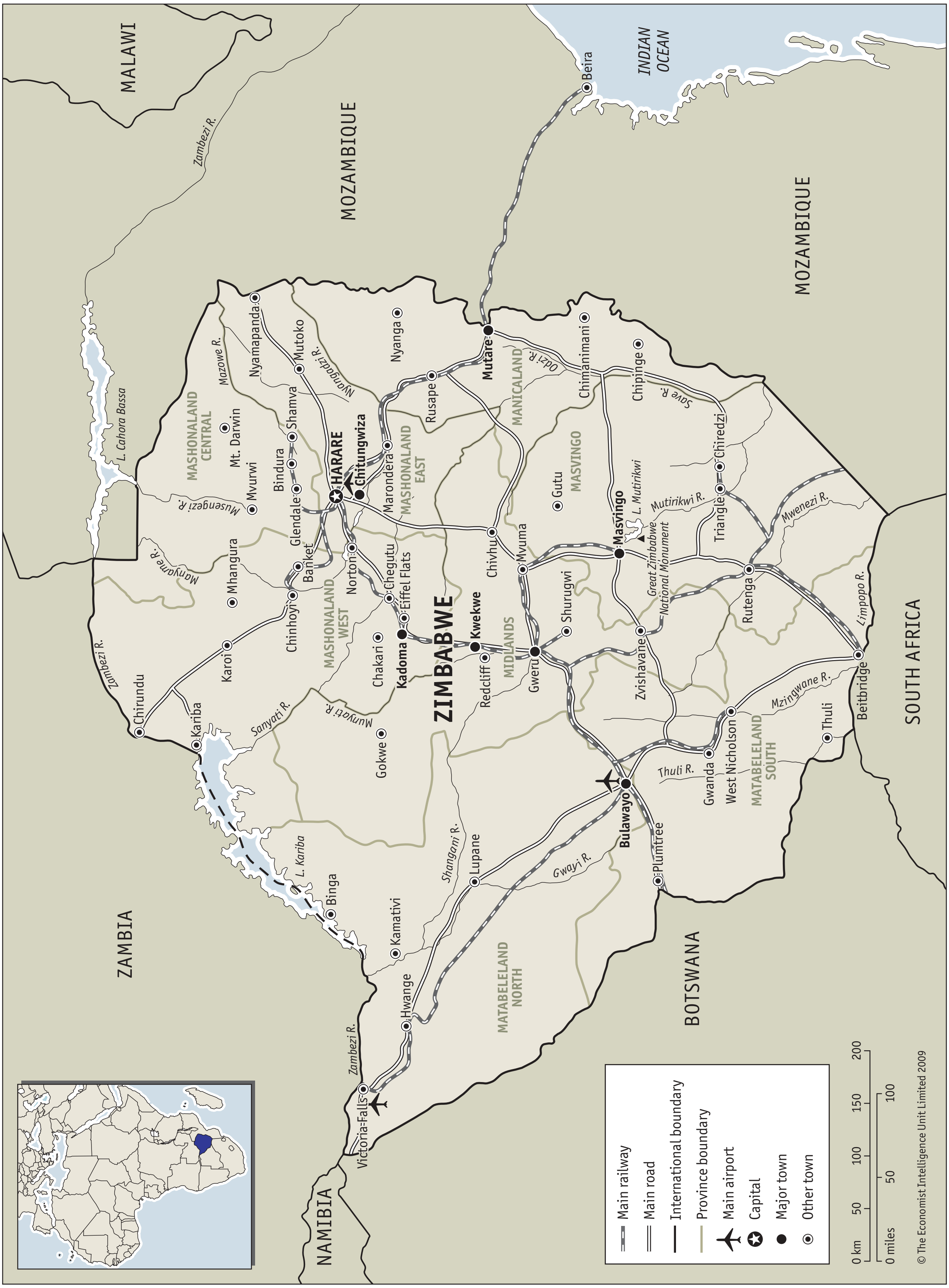
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Great Zimbabwe National Monument
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Gwayi R.
Shangani R.
Munyati R.
Sanyati R.
Manyame R.
Musengezi R.
Main railway
Main road
International boundary
Province boundary
Main airport
Capital
Major town
Other town
0 km 50 100 150 200
0 miles 50 100
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Executive summary

Highlights

July 2009

Outlook for 2009-10

- The prime minister, Morgan Tsvangirai, may be acting as the public face of the government of national unity (GNU) on foreign trips, but all the signs are that the president, Robert Mugabe, is winning the struggle for control.
- Tensions over the timing and scope of constitutional talks could fatally undermine the GNU.
- With Western states largely limiting themselves to humanitarian assistance and regional countries unable to provide the vast sums of assistance required, Zimbabwe is seeking help from donors such as China.
- A mini-budget due in July 2009 is likely to include tax hikes and an increase in public service wages. The former are unlikely to be sufficient to fund the latter.
- Government services will continue to deteriorate, although donor funding of part of the healthcare and education budgets could ease the pressure somewhat.
- Prices are continuing to fall but the rate of decline is slowing, and wage pressures, international fuel prices and imported inflation are likely to send prices back up again in the second half of the year.
- Mr Mugabe has mooted a return to use of the Zimbabwe dollar; this would prove highly unpopular with businesses.
- Tobacco earnings are set to fall this year because of lower international prices, and there is little scope for increased production in 2010.

Monthly review

- Mr Tsvangirai has toured a number of Western capitals, seeking to promote the power-sharing government's policies to sceptical donor nations.
- Mr Tsvangirai has raised an estimated US$150m in fresh aid pledges, and the government is negotiating with China for a US$950m credit line.
- Simba Makoni, who stood as an independent in last year's presidential poll, is forming a new political party and hopes to capitalise on growing disenchantment with both ZANU-PF and the MDC.
- The IMF has detected a "nascent economic recovery", sparked by a more liberal economic environment and price stability. The Fund is unlikely to provide fresh aid until the country clears its arrears, however.
- A non-governmental organisation has accused the government of human-rights violations in the mining sector.

Outlook for 2009-10

Political outlook

Domestic politics

After years of misrule, which have precipitated an economic and humanitarian catastrophe, support for Robert Mugabe's Zimbabwe African National Union-Patriotic Front (ZANU-PF) is said to be running at below 10%. Popular resentment against his rule has failed to worry Mr Mugabe in the past, but much will depend on his ability to keep his patronage networks intact: the army has traditionally been the backbone of Mr Mugabe's rule, and the crucial role of the security forces is underscored by the fact that the president's two main potential successors, Joice Mujuru and Emmerson Mnangagwa, are manoeuvring to secure control of the military.

This is not to say that Mr Mugabe is going to leave his post soon. He appears to be winning the struggle for control of the new power-sharing government that was sworn in to office in February, allowing the prime minister, Morgan Tsvangirai, to act as the public face of the administration on foreign trips but refusing to allow Mr Tsvangirai's Movement for Democratic Change (MDC) to change key political appointments, for example. In the coming months tensions are likely to centre on the proposed new constitution, where there are fundamental disagreements between ZANU-PF and the MDC over the nature and timing of negotiations on a document that is supposed to pave the way for elections in 2010. The dispute, over the extent of presidential powers, goes to the heart of difficulties in the government of national unity (GNU), and is unlikely to be resolved quickly or easily.

Indeed, it is possible that deadlock over the constitution will lead to the collapse of the GNU. Under such a scenario Mr Mugabe would try to remain in power but international pressure would be brought to bear to force him from office. It is also possible that a suitable "exit package", which would include an agreement from Western countries not to attempt to prosecute him for human rights abuses, could persuade Mr Mugabe to relinquish power. However, dealing with those other senior ZANU-PF and army members closely allied to Mr Mugabe would complicate matters. They would have much to lose were Mr Mugabe to leave office, and so may attempt to prolong his rule.

International relations

Although Mr Tsvangirai is seeking to improve relations with donor nations and persuade them that the transition process is working, Mr Mugabe continues to take an antagonistic approach to Western states, and it is clear that he will never co-operate with "colonialist" countries. In this context, the MDC has turned to regional powers to influence the Zimbabwean president—and has thus far been sorely disappointed. This could begin to change during 2009, following the appointment of Jacob Zuma as South African president. Mr Zuma has a strong support base in the South African unions, which are keen to see change in their neighbour, and pressing for a positive political change in Zimbabwe would provide an early boost to the new president's domestic, regional and international credibility. That said, Mr Zuma is likely to focus on domestic matters in the months immediately following his election, and officials of the new administration have already stated that the power-sharing government must be given a chance to succeed. Rapid progress is unlikely, therefore, unless the power-sharing deal breaks down or Mr Mugabe's violent repression against the opposition worsens.

With Western states largely limiting themselves to humanitarian assistance and regional countries unable (or unwilling) to provide the vast sums of financial assistance required, Zimbabwe is instead seeking help from donors such as China. Thus, Mr Tsvangirai has announced that the government has secured up to US$950m in credit lines from China. The advantage of this from the government's perspective is that lenders such as China are much less likely to attach conditionalities such as improvements in human rights and the restoration of the rule of law; the disadvantage is that non-traditional arrangements can be contingent on pledges of future export earnings.

Economic policy outlook

Policy trends

As part of the power-sharing agreement, the Ministry of Finance has been placed under the control of the MDC—which means that the MDC is set to lose support as it makes only limited progress tackling the economy. Economic policy will continue to be driven by political considerations, with the struggle for influence between ZANU-PF and the MDC in the power-sharing government overshadowing policy reform—the MDC will continue to seek the removal of the governor of the central bank, as his continued presence is seen as an obstacle to its control over key economic ministries—and only once Mr Mugabe has left office is there any hope that economic policy will get back on track. Despite this, the IMF is set to offer technical assistance to the country for the first time since 2003. This will focus on tax policy and administration, payments systems, banking supervision and central bank governance. However, more substantial lending programmes are unlikely until Mr Mugabe does relinquish power, suggesting that economic policy will remain chaotic and piecemeal over the forecast period.

Fiscal policy

Unlike in 2008, the government has actually managed to produce a budget for 2009—in fact, it is set to produce three. The January measure, announced by a ZANU-PF finance minister, tacitly accepted the worthlessness of the Zimbabwe dollar by formally allowing foreign exchange to be allowed for payment in Zimbabwe, while a revised (March) measure, produced by the new MDC minister, Tendai Biti, is somewhat more realistic in terms of spending and revenue targets, both of which have been reduced to US$1bn. A mini-budget, due in July, is likely to contain some increase in public service wages—currently set at US$100/month—and various tax hikes. Mr Biti is facing an estimated budget deficit of 10.5% of GDP this year, and this can be funded only from increased revenues or foreign aid and foreign borrowing. Although some assistance is likely to be forthcoming, the government is likely to struggle to raise revenue, and the Economist Intelligence Unit expects the administration to continue to rein in spending in real terms in an attempt to keep the deficit under control. As a result, government services, particularly healthcare and education, will continue to deteriorate. The situation in 2010 will largely depend on who is in power. If Mr Mugabe has left office by then, a large increase in donor support can be expected, the IMF will help to shape a prudent economic policy and the need to print money to cover the deficit will be removed. However, should Mr Mugabe's reign persist into 2010, little change in fiscal policy is to be expected.

Monetary policy

Severe foreign-exchange shortages have shaped monetary policy in recent years, undermining all economic activity. The effective dollarisation recognised in the 2009 budget adds a new dimension to this, with monetary policy rendered even more ineffective. The government is studying the possibility of joining the Rand Monetary Area, but any formal link to the rand is unlikely before late 2010 given the huge disparity between Zimbabwean and other Southern African inflation rates.

Economic forecast

International assumptions

International assumptions summary
(% unless otherwise indicated)

	2007	2008	2009	2010
Real GDP growth				
World	5.0	3.0	-1.8	2.1
OECD	2.7	0.9	-4.0	0.4
EU27	2.9	0.9	-4.4	-0.6
Exchange rates				
¥:US$	117.8	103.4	96.3	94.8
US$:€	1.369	1.470	1.358	1.385
SDR:US$	0.651	0.629	0.657	0.648
Financial indicators				
€ 3-month interbank rate	4.27	4.65	1.40	1.43
US$ 3-month Libor	5.30	2.91	1.05	1.04
Commodity prices				
Oil (Brent; US$/b)	72.7	97.7	59.0	65.0
Gold (US$/troy oz)	696.7	870.2	895.8	827.5
Platinum (US$/oz)	1,299.0	1,563.2	1,042.8	1,231.3
Food, feedstuffs & beverages (% change in US$ terms)	30.9	29.5	-22.4	3.1
Industrial raw materials (% change in US$ terms)	11.2	-5.1	-35.5	14.3

Note. Regional GDP growth rates weighted using purchasing power parity exchange rates.

We expect world GDP (measured on a purchasing power parity basis) to decline by 1.8% in 2009 as many Western economies enter recession. Growth will be marginally better in 2010, at 2.1%. The drop in growth will see demand for many commodities slacken, with prices falling significantly from the recent highs. However, the prices of some commodities, such as platinum, should begin to recover in 2010 in line with the global recovery. We expect international oil prices to slide sharply in 2009, with Brent Blend averaging US$59/barrel, which will benefit Zimbabwe as an oil importer, before edging up to an average of US$65/b in 2010.

Economic growth

The economic collapse has been compounded by the violent troubles stemming from the March 2008 elections and subsequent political deadlock. This situation contributed to a large decline in economic activity in 2008, with real GDP shrinking at double-digit levels. Mining and manufacturing output are starting to recover, but such is the destruction of the economy that the GNU faces a mammoth task in turning things around, even with substantial donor assistance. For example, any recovery in farming will be constrained by the displacement of many farmers as part of the government crackdown on opposition supporters, the limited availability of inputs, the destruction of the commercial sector and the impact of the HIV/AIDS pandemic. Businesses are also likely to remain cautious: most have already scaled back operations and developed techniques to survive the difficult operating environment; they will start to expand their operations only when they sense that the economy is on the mend. What is more, strikes are becoming an increasingly serious problem as workers seek to claw back some of the (substantial) decline in earnings that they have suffered in recent years.

The IMF is predicting that GDP will grow by 2.8% this year and 6% in 2010; this is likely to prove overoptimistic, but given that the formal economy has declined to the point where there is hardly anything left to shrink, the contraction this year is likely to be minimal, at just 1.3%. As with most post-conflict states, once the recovery does begin it should be fairly rapid, and growth is likely to be positive in 2010, for the first time since 1999.

Exchange rates

Shortages of food and foreign exchange, the galloping devaluation of the currency and the ballooning money supply caused by the government's quasi-fiscal spending drove inflation to record highs in 2008. When the government halted official estimates, in August 2008, the monthly rate was estimated at 231 million percent. Inflation has fallen dramatically with rapid dollarisation at the end of 2008: consumer prices fell by 10% (cumulative) in the first five months of 2009. However, the decline is slowing and prices are likely to start rising again in the latter half of the year, given wage inflation pressures, increasing international fuel prices and trends in the rand (South Africa is the main source of Zimbabwean imports). Although the high base set at the end of 2008 will mean that overall inflation will remain high in 2009, the rate will fall very quickly in 2010 once the highs of 2008 drop out of the calculations. Indeed, a period of deflation is a distinct possibility, especially if external financial assistance does not materialise, prompting a squeeze on liquidity. The Reserve Bank of Zimbabwe (RBZ, the central bank) redenominated the currency twice in six months, removing first ten and then 12 zeros. However, Zimbabwe's inflation and moribund economy continued to undermine the value of the currency, rendering any redenomination useless, and the government sanctioned the use of foreign currency for all payments in the 2009 budget. This has effectively led to the scrapping of the Zimbabwe dollar, with most transactions conducted in US dollars.

The government is currently considering three options: membership of the Rand Monetary Area (which will become more feasible as Zimbabwe's inflation rate moderates), continuation of the existing multicurrency system and a return to a local currency. There are some concerns about the multicurrency system, as businesses tend to prefer using the US dollar, while the government says that it has chosen the rand as its "reference" currency. However, this is seen as vastly preferable to reviving the Zimbabwe dollar, which has again been mooted by Mr Mugabe. The president claims that reintroduction of the Zimbabwe dollar is necessary because rand and US dollars are not widely available outside cities, but there are inevitably concerns that such a step would lead to inflationary problems once again.

External sector

Falling commodity prices will adversely affect Zimbabwe's exports in 2009, as will continuing declines in production as the economic collapse worsens. However, one positive aspect is that gold prices will remain high. In 2010 a small recovery in exports is expected as other commodity prices, such as that of platinum, show signs of recovery. The mining industry will also be among the first sectors to benefit from any political change. Tobacco earnings are expected to be some 20% down on their 2008 levels this year because of lower international prices, and there is little scope for an increase in 2010 output, as the large-scale commercial growers are already operating close to their maximum capacity. Imports should increase slightly in 2009, reflecting the aid-financed importation of at least 500,000 tonnes of maize, an increase in foreign aid for humanitarian purposes and up to US$2bn in foreign credit lines reportedly negotiated by the government.

Since tourism will recover only slowly, we expect the services account to remain in deficit. The income account is also set to remain in deficit, even though the repatriation of profits and debt-service payments will be limited. Only the current transfers account will be in surplus: remittances by the 3.5m-plus Zimbabweans living abroad are likely to be affected by the global recession, but substantial aid inflows via non-governmental organisations will be reflected as private transfers. Exports will fall slightly in 2009 while imports will rise, but the current-account deficit will remain unsustainably high, at more than 30% of GDP. Exports should rise in 2010, but imports will also increase, meaning that the deficit will moderate only slightly, to 25%.

Forecast summary

(% unless otherwise indicated)

	2007[a]	2008[a]	2009[b]	2010[b]
Real GDP growth	-5.5	-14.1	-1.3	1.9
Manufacturing production growth	-5.5	-13.3	-3.8	6.0
Gross agricultural production growth	-5.0	-24.0	-4.0	-2.0
Consumer price inflation (av)	1.3E+04	1.5E+10	4.5E+16	4.6
Consumer price inflation (year-end)	6.6E+04	2.2E+23	5.0E+01	3.5
Short-term interbank rate	579.0	450.3	461.6	470.7
Government balance (% of GDP)	-8.9	-6.3	-6.3	-6.2
Exports of goods fob (US$ bn)	1.5	1.3	1.3	1.4
Imports of goods fob (US$ bn)	2.0	1.9	2.0	2.3
Current-account balance (US$ bn)	-0.5	-0.7	-0.4	-0.4
Current-account balance (% of GDP)	-29.5	-45.3	-30.8	-24.8
External debt (year-end; US$ bn)	5.1	5.3	5.4	5.6
Exchange rate Z$:US$ (av)[c]	8.2E+04	5.7E+15	4.7E+34	5.0E+38
Exchange rate Z$:US$ (year-end)[c]	3.2E+05	6.8E+16	1.7E+35	5.0E+38
Exchange rate Z$:€ (av)[c]	1.1E+05	8.4E+15	6.4E+34	6.9E+38
Exchange rate Z$:US$ (av; parallel market)	9.9E+05	2.0E+25	4.0E+39	1.0E+42

[a] Economist Intelligence Unit estimates. [b] Economist Intelligence Unit forecasts. [c] The currency re-denominations carried out in 2008 and 2009 have not been applied in order to give a consistent data series.

Monthly review: July 2009

The political scene

Prime minister's Western tour has mixed success

The prime minister, Morgan Tsvangirai, toured a number of Western capitals in June, seeking to promote the power-sharing government's policies to sceptical donor nations. Although he insisted that the tour was "not a begging bowl exercise", he raised an estimated US$150m in fresh aid pledges over a period of three weeks. Virtually all of these funds are for humanitarian purposes and will be disbursed through non-governmental organisations (NGOs) rather than going to the government itself. Because expectations in the government were extremely low this outcome is broadly viewed as a modest success. Not everyone shares this view, however: for example, the state-owned media—which continues to support Robert Mugabe's Zimbabwe African National Union-Patriotic Front (ZANU-PF) party—is instead championing a rival fund-raising mission to Asia and Russia, headed by a presidential hopeful, Emmerson Mnangagwa. However, Mr Tsvangirai appears to have pre-empted the Mnangagwa mission somewhat, announcing at the end of June that China will provide US$950m—in the form of credit lines—to help to revive the economy.

Predictably, Mr Mugabe himself has been critical of the tour. In a national television broadcast the president commented that the Movement for Democratic Change (MDC) had promised to deliver billions of dollars once the inclusive government was formed, "but nothing has materialised so far". He dismissed the pledges of humanitarian assistance and said that he intended to remind the prime minister that "Imperialists can never be friends of those countries and people that desire freedom ... Only a dead imperialist is a good one. Colonisers can never be friends, so we turn our back on them and face the East."

Tensions arise in the GNU

Comments such as these underscore why the prime minister faced a hostile reception from expatriate Zimbabweans when he sought to defend Mr Mugabe—and stated that emigrés "must" come home—at a public meeting in London. They also belie Mr Tsvangirai's efforts to portray the government of national unity (GNU) as a team working together towards a common goal. On a wide variety of issues—land ownership, privatisation, indigenisation of the economy, a new constitution, media freedom and relations with the West—ZANU-PF and the MDC are deeply divided.

Now that he has heard Western concerns and conditions at first hand, Mr Tsvangirai's task is to tackle lawlessness on the farms, human rights infringements by the police, army and civil authorities, and media freedom. However, donor concerns are unlikely to be ameliorated by the news that Roy Bennett, the MDC's nominee for deputy agriculture minister, is to face trial on terrorism charges. Had he been cleared at a July 1st hearing, Mr Mugabe would have had little choice but to appoint Mr Bennett—a former coffee farmer who was evicted from his property and who was expected to take a much tougher line on the ongoing farm invasions by Mugabe loyalists. There are inevitably suspicions that the charges against him are politically motivated, and they give rank-andfile MDC members another reason to doubt Mr Tsvangirai's comments that Mr Mugabe is part of the solution and that the transition is working.

A second potential flashpoint is the proposed new constitution. In July work begins in earnest to draw up a new constitution, with a target completion date of mid-2010. A parliamentary select committee has been set up to conduct national consultations, but there are growing tensions between the two main parties over the nature and timing of the exercise. ZANU-PF is demanding that the so-called Kariba Draft, drawn up during secret meetings by the three coalition partners during the protracted negotiations that eventually culminated in the establishment of the GNU, is used as the basis of the constitution. Mr Mugabe is committed to the Kariba Draft because it leaves his executive powers intact, but Mr Tsvangirai's mainstream MDC is insisting that the process be open and transparent, with widespread consultation with parties and civil society groups.

There is also disagreement over the timing of the process. The MDC wants to comply with the Global Political Agreement (GPA) timetable, which would mean fresh elections in 2011 or possibly late next year, but both ZANU-PF and the MDC faction led by Arthur Mutambara want to make the process last as long as possible—largely because they are aware that they are likely to be heavily defeated at the polls by the mainstream MDC.

A new political party is to be formed

A new political party—the second to be formed since the inception of the GNU—is being established by Simba Makoni, a former finance minister in the Mugabe government who defected from ZANU-PF last year to contest the presidential election. Mr Makoni—who stood as an independent, winning just 8% of the national vote—says that the time is now ripe to offer an alternative to the GNU, exploiting what he believes is growing disenchantment with both major parties. His backers believe that the new grouping can win substantial support from ZANU-PF "moderates" unhappy with the calibre of the candidates vying to succeed Mr Mugabe once the 85-year-old finally steps down from the party leadership.

Economic policy

Mini-budget is due

The finance minister, Tendai Biti, is scheduled to present a mini-budget during July, with measures likely to include tax hikes and some increase in public service wages. Funding will be a key issue: according to the IMF, Mr Biti is facing a budget deficit of 10.5% of GDP this year; this can be funded only from increased revenues or foreign aid and foreign borrowing. Morgan Tsvangirai's fund-raising mission to Europe and North America is estimated to have yielded US$150m in new money, although the actual total could be lower because donors frequently double-count their aid pledges, and the US$950m Chinese credit line is still "under discussion", according to Chinese sources.

Virtually none of the new Western money is going directly to the Treasury but will be disbursed by NGOs. That said, donors may help to ease the pressure on the Ministry of Finance by part-funding the health and education budgets, so resulting in government savings.

Promised financial inflows
(US$ m unless otherwise indicated)

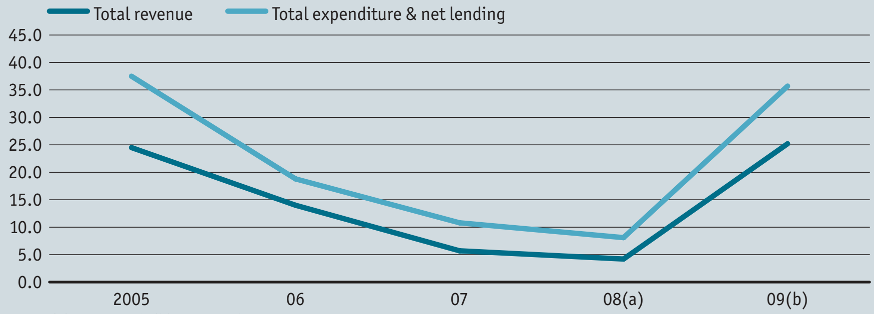
Donor/Lender	Amount	Purpose
Africa Export-Import Bank	250	Trade credit line
PTA Bank	178	Trade credit line
UK	83	Humanitarian support; includes US$8.3m promised by UK prime minister in June
US	73	Humanitarian support
Botswana	70	Trade credit line
South Africa	50	Trade credit line
South Africa	25	Grant aid
World Bank	22	Disbursed through NGOs to assist small farmers & the poor
Germany	18	Humanitarian assistance
Denmark	18	Humanitarian support
Germany	13	Seed, fertiliser
China	10	Grant aid
Norway	9	Disbursed through UN agencies, World Bank & NGOs to support recovery
Australia	A$10 m	Water, sanitation & return of health professionals
Australia	A$6 m	Seed, fertiliser, water & sanitation

Sources: Various governments.

Mr Biti has promised to increase public service pay, replacing the existing US$100-a-month "allowance" with what he calls "proper salaries," but without more revenue this will not be possible. In May government revenue is estimated at US$60m, taking the inflow to the Treasury for the first five months of the year to no more than US$200m, against a targeted US$420m.

The finance minister's task is being made more difficult by growing wage inflation pressures across the economy. In a number of industries wage disputes have been declared between management and labour. These are going to arbitration, where the result is normally "splitting the difference" between the two sides. The consequence is a sharp rise in wages at a time when prices are falling, meaning that real wages have already risen by 10% in 2009. The most recent award—to bankers, who will now get two to three times the public service wage of US$100 a month—has intensified the pressure on the finance minister, who has already surreptitiously raised some import duties on luxury items and may well be forced to increase value-added tax and import duties on non-essentials.

Revenue and expenditure
(% of GDP)



(a) Estimated. (b) Projected.
Source: IMF, Article IV Consultation, May 2009.

Arrears must be cleared first

The crucial importance of bilateral donor support is highlighted in a joint note on Zimbabwe's financial situation by the IMF, the World Bank and the African Development Bank. This says that re-engagement with Zimbabwe will require "close co-ordination" among all official creditors and involve raising more resources than those currently available to the international financial institutions. At present none of the three can provide money to Zimbabwe, except limited grants, because the country owes the international community upwards of US$3bn. Before funding can resume Zimbabwe must clear its arrears and demonstrate a track record of sound policies.

Economic performance

A "nascent economic recovery" is detected

Following a ten-day visit to the capital, Harare, an IMF mission issued a statement detecting "a nascent economic recovery" prompted—according to the Fund team—by a more liberal economic environment, price stability, increased financial intermediation and greater access to foreign credit lines. The July 2nd report added that the government had matched spending with revenue during the first five months of 2009, while "significant increases" in budget revenue in recent months had made it possible to implement non-wage expenditures in critically important social areas. The Fund added, however, that reform and stabilisation efforts must be speeded up if positive economic trends are to be sustained and living standards improved, and that the government needs to create extra fiscal space for non-wage spending on infrastructure and in critical social spheres.

Although the tenor of the report is much more upbeat than that of the previous mission, published in May (May 2009, Economic performance), the IMF is not going to provide any new assistance yet. It will continue to provide policy advice and targeted technical assistance, but access to new financing would require donor financial support for the clearance of arrears to official creditors as well as a sustained track record of sound policies.

Price decline slows

Prices fell by a further 1% in May, taking the cumulative decline so far this year to 10%, but the decline is tapering off and price rises are forecast to resume in the latter half of 2009. There are, however, a number of unknowns:

- wage pressures: there is mounting pressure in the labour market—workers at the ferrochrome manufacturer, Zimasco, the country's third-largest exporter, went on strike in mid-June;
- fuel prices: these have risen steeply in the past six weeks, but international analysts are deeply divided over whether this trend will continue into the latter half of 2009;
- the rand: trends in the South African currency will have a crucial impact, although the rand is expected to weaken in the months ahead, helping to address imported inflation; and
- the GNU's position on import duties: finance ministry officials believe that because import duties are the largest single source of government revenue

there is a case for increasing duties on non-essentials, and this may happen in the July mini-budget, in which case inflation will accelerate in the latter half of 2009.

Mines operate well below capacity

According to Victor Gapare, the president of the Zimbabwe Chamber of Mines, only three of 88 mines in the country are operating close to full capacity—Murowa Diamond Mines, owned by Rio Tinto (Zimbabwe), and the two platinum mines owned by Zimbabwe Platinum Mines (Zimplats) and Mimosa Mine. Mr Gapare estimates gold production in the first half of 2009 at less than one tonne—at just 861 kg—against a record of 28 tonnes at the end of the 1990s. He expects production to increase in the latter half of the year as the Egyptian-based Afreximbank is offering gold loans to producers using future gold deliveries as security. South African-owned Metallon Mines has reopened two mines—How and Shamva—raising loans of some US$15m. The group has a production target of 650,000 troy oz/year by 2014.

Meanwhile, a contentious report by a US-based NGO, Human Rights Watch, accuses the Mugabe government of human rights violations—including the use of forced labour, torture and the murder of more than 200 people—in the Marange diamond fields near Mutare, theoretically under the control of the state-owned Mining Development Corporation. Another NGO, Global Witness, accuses the Kimberley Process of effectively ignoring a situation first reported to it in 2006. Global Witness says that the Kimberley Process risks losing its credibility if diamonds from Zimbabwe are not classified as "blood diamonds" and suspended from the process.

Tobacco earnings set to fall

With some 60% of the 2009 tobacco crop already sold, average prices of 288 US cents/kg are 8% below the average for the year-earlier period. If prices continue to firm to around US$3/kg, as expected, the 2009 crop will be worth some US$135m—20% less than the US$172m earned from tobacco exports in 2008. Dollarisation and the steep fall in fuel prices have reduced production costs to around US$7,500/hectare (ha) from US$10,000/ha last season. However, the signs are that these costs will start rising again in the latter half of the year, primarily because of the 65% increase in the price of fuel in recent weeks. Inputs imported from South Africa—the main supplier—are also more expensive because of the stronger rand.

Maize output up

Maize production more than doubled in the 2008/09 growing seasons, according to estimates by the UN Food and Agriculture Organisation and the World Food Programme. They estimate the current season's harvest at 1.14m tonnes—131% more than the 471,000 tonnes grown in 2007/08. Against that, wheat production is projected at a mere 12,000 tonnes in 2009, the lowest level since Zimbabwe began to grow its own wheat 50 years ago. Cereal consumption is estimated at 1.74m tonnes, meaning that there will be a shortfall of 680,000 tonnes and an estimated 2.6m people will need food assistance (although this is a substantial reduction on the 2008 total of 7m).

Data and charts

Annual data and forecast

	2004[a]	2005[b]	2006[b]	2007[b]	2008[b]	2009[c]	2010[c]
GDP							
Nominal GDP (US$ bn)	2.0	1.9	1.8	1.7	1.5	1.3	1.5
Nominal GDP (Z$ bn)	2.39E+01	7.54E+01	8.84E+02	1.06E+05	1.36E+13	6.04E+27	6.44E+27
Real GDP growth (%)	-3.8	-6.5	-4.6	-5.5	-14.1	-1.3	1.9
Expenditure on GDP (% real change)							
Private consumption	-18.6	8.4	-4.5	-5.0	-13.9	-1.0	2.0
Government consumption	31.7	6.4	-6.0	-6.0	-10.0	5.0	5.0
Gross fixed investment	54.2	-63.4	-1.0	-5.0	-8.0	-2.0	1.0
Exports of goods & services	1.7	-4.3	-1.0	-0.8	-1.2	-0.5	2.0
Imports of goods & services	2.4	-3.1	-1.5	-1.0	-0.6	1.5	3.0
Origin of GDP (% real change)							
Agriculture	-2.9	-10.0	-4.5	-5.0	-24.0	-4.0	-2.0
Industry	-3.5	-11.7	-3.5	-5.0	-14.7	-2.0	3.0
Services	-4.2[b]	-3.4	-5.0	-5.8	-11.0	-0.3	2.5
Population and income							
Population (m)	13.0[b]	13.1	13.2	13.3	13.3	13.3	13.3
GDP per head (US$ at PPP)	182[b]	174	170	165	144	143	145
Fiscal indicators (% of GDP)							
Public-sector revenue	32.5	43.9	39.5	37.7	39.2	39.6	38.8
Public-sector expenditure	38.7	45.6	51.1	46.5	45.5	45.9	45.0
Public-sector balance	-6.1	-1.7	-11.6	-8.9	-6.3	-6.3	-6.2
Net public debt	193.2	195.9	212.2	216.0	259.4	294.9	266.2
Prices and financial indicators							
Exchange rate Z$:US$ (end-period)[d]	5.73E+00	7.80E+01[a]	2.50E+02[a]	3.23E+05	6.75E+16	1.72E+35	5.00E+38
Consumer prices (end-period; %)	1.33E+02	5.86E+02[a]	1.28E+03[a]	6.62E+04	2.16E+23	5.00E+01	3.45E+00
Stock of money M1 (% change)	2.29E+02	5.53E+02[a]	1.32E+03	6.67E+04	2.87E+09	4.47E+16	8.14E+01
Stock of money M2 (% change)	2.29E+02	5.33E+02[a]	1.45E+03	6.45E+04	2.97E+09	4.47E+16	9.63E+01
Lending interest rate (av; %)	278.9	235.7[a]	496.5[a]	579.0	450.3	461.6	470.7
Current account (US$ m)							
Trade balance	-309[b]	-586	-512	-510	-604	-753	-984
Goods: exports fob	1,680[b]	1,518	1,528	1,465	1,311	1,277	1,350
Goods: imports fob	-1,989[b]	-2,104	-2,040	-1,975	-1,915	-2,030	-2,334
Services balance	-107[b]	-97	-88	-108	-146	-180	-191
Income balance	-208[b]	-268	-151	-144	-189	-198	-180
Current transfers balance	228[b]	263	264	266	270	720	971
Current-account balance	-396[b]	-688	-488	-496	-670	-410	-384
External debt (US$ m)							
Debt stock	4,818	4,296[a]	4,677[a]	5,085	5,316	5,443	5,578
Debt service paid	100	225[a]	83[a]	78	85	75	63
Principal repayments	77	198[a]	31[a]	35	38	36	24
Interest	23	27[a]	53[a]	43	47	39	39
Debt service due	449	276[a]	406[a]	652	671	748	618
International reserves (US$ m)							
Total international reserves	255	160	139	117	96	91	81

[a] Actual. [b] Economist Intelligence Unit estimates. [c] Economist Intelligence Unit forecasts. [d] The currency re-denominations carried out in 2008 and 2009 have not been applied in order to give a consistent data series.

Source: IMF, *International Financial Statistics*.

Quarterly data

	2006				2007			
	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr
Central government finance (Z$ m)								
Revenue & grants	45,594	162,579	n/a	n/a	n/a	n/a	n/a	n/a
Expenditure & net lending	49,850	188,148	n/a	n/a	n/a	n/a	n/a	n/a
Balance	-4,256	-25,569	n/a	n/a	n/a	n/a	n/a	n/a
Total domestic debt (end-period)	15,021	46,213	119,401	175,666	1,283,404	n/a	n/a	n/a
Output								
Manufacturing index (1990=100)	56	58	69	73	n/a	n/a	n/a	n/a
Manufacturing index (% change, year on year)	-9	-5	12	30	n/a	n/a	n/a	n/a
Prices								
Consumer prices (2000=100)	72,480	133,258	249,903	509,953	1,437,264	7,321,732	n/a	n/a
Consumer prices (% change, year on year)	773	1,147	1,071	1,164	1,883	5,394	n/a	n/a
Financial indicators								
Exchange rate Z$:US$ (av)	97.4	100.5	200.4	250.0	259.2	257.3	8,187	30,000
Exchange rate Z$:US$ (end-period)	102.8	104.8	259.6	258.9	259.1	255.6	30,000	30,000
Parallel exchange rate Z$:US$ (av)	156.9	320.0	1,068	2,567	10,333	79,333	293,333	n/a
Bank rate (end-period; %)	750.0	850.0	300.0	500.0	500.0	600.0	600.0	975.0
Lending rate (av; %)	488.3	665.8	431.7	400.0	529.2	537.5	590.8	658.3
Treasury bill rate (av;%)	455.0	509.4	258.8	66.3	66.3	248.8	340.0	340.0
M1 (end-period; Z$ bn)	6.04E+04	1.15E+05	3.32E+05	6.37E+05	2.22E+06	1.89E+07	7.09E+07	4.25E+08
M1 (% change, year on year)	521	771	1,510	1,323	3,584	16,323.8	21,255.8	66,709.9
M2 (end-period; Z$ bn)	8.22E+04	1.58E+05	4.34E+05	9.07E+05	2.85E+06	2.36E+07	9.07E+07	5.86E+08
M2 (% change, year on year)	559	781	1,520	1,453	3,372	14,839.6	20,807.8	64,472.4
ZSE Industrial index (end-period)	28,565	61,764	184,839	310,459	548,730	3,696,286	5,460,688	n/a
Sectoral trends								
Tobacco auctions (annual totals; '000 tonnes)[a]	n/a	53	n/a	n/a	n/a	0	n/a	n/a
Gold production (kg)	2,788	2,556	2,990	2,904	2,334	n/a	n/a	n/a
Gold production (Z$ bn)	4,854	6,286	13,035	29,569	27,735	n/a	n/a	n/a
Chrome ore production ('000 tonnes)	174	173	177	176	176	n/a	n/a	n/a
Chrome ore production (Z$ bn)	1,047	1,662	4,019	8,541	19,643	n/a	n/a	n/a
Platinum production (kg)	1,172	1,183	1,434	1,210	1,367	n/a	n/a	n/a
Platinum production (Z$ bn)	3,519	4,016	10,400	10,377	11,761	n/a	n/a	n/a
Foreign trade (Z$ m)[b]								
Exports fob	207.5	236.0	243.3	254.4	619.7	709.1	549.3	618.9
Imports cif	597.6	709.9	786.1	729.7	605.5	571.7	634.6	781.8
Trade balance	-390.1	-473.9	-542.8	-475.3	14.2	137.5	-85.3	-162.9

[a] Provisional data for 2006. [b] *DOTS* estimates.

Sources: IMF, *International Financial Statistics*; *Direction of Trade Statistics*; Reserve Bank of Zimbabwe; Central Statistical Office.

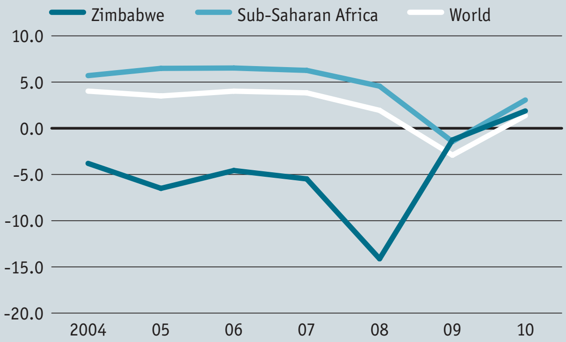
Monthly data

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Exchange rate Z$:US$ (av)												
2005	5.8	6.0	6.1	6.1	7.1	9.8	12.5	21.2	25.5	61.5	64.2	78.0
2006	93.7	99.2	99.2	99.2	101.2	101.2	101.2	250.0	250.0	250.0	250.0	250.0
2007	250.0	250.0	250.0	15,000	15,000	15,000	15,000	15,000	30,000	n/a	n/a	n/a
M1 (% change, year on year)												
2005	156	196	189	187	191	180	237	236	264	423	407	553
2006	598	546	521	579	688	771	867	1,300	1,510	1,302	1,442	1,323
2007	1,607	2,114	3,584	4,844	8,928	16,324	18,441	16,837	21,256	26,779	57,538	66,710
M2 (% change, year on year)												
2005	168	204	192	190	219	202	253	236	256	377	414	533
2006	588	549	559	593	675	781	853	1,266	1,520	1,490	1,462	1,453
2007	1,668	2,142	3,372	4,559	8,344	14,840	18,599	17,845	20,808	25,046	53,013	64,472
Deposit rate (%)												
2005	56.5	46.5	44.4	44.0	54.0	81.5	79.0	126.0	126.0	130.5	130.5	174.0
2006	169.0	164.0	229.0	254.0	254.0	229.0	284.0	179.0	179.0	166.5	166.5	166.5
2007	129.0	124.0	154.0	154.0	154.0	129.0	129.0	129.0	94.0	104.0	79.0	79.0
Lending rate (%)												
2005	168.0	155.0	155.6	150.0	165.0	200.0	207.5	262.0	275.0	360.0	315.0	415.0
2006	415.0	455.0	595.0	682.5	682.5	632.5	632.5	312.5	350.0	350.0	350.0	500.0
2007	512.5	537.5	537.5	537.5	537.5	537.5	572.5	600.0	600.0	600.0	600.0	775.0
Industrial share prices (% change, year on year)												
2005	333	367	700	533	500	350	317	300	550	1,350	1,633	1,571
2006	2,100	1,657	1,125	1,053	1,417	1,828	2,348	4,679	6,195	2,402	2,925	2,977
2007	2,044	3,700	12,878	16,432	27,486	78,427	37,113	21,665	22,157	91,996	221,176	335,336

Sources: IMF, *International Financial Statistics*; Haver Analytics.

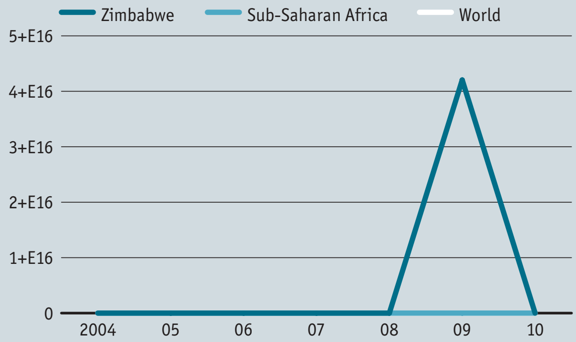
Annual trends charts

Real GDP growth
(% change)



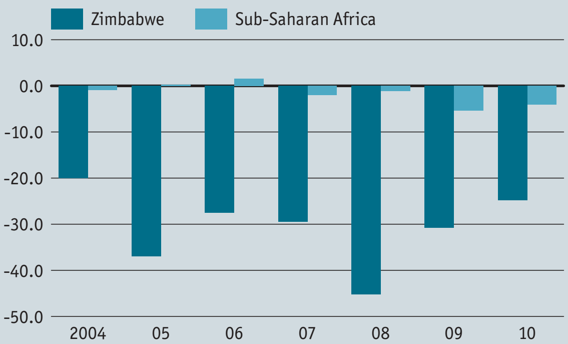
Source: Economist Intelligence Unit.

Consumer price inflation
(av; %)



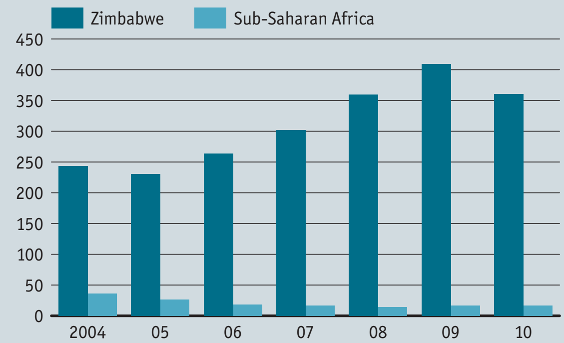
Source: Economist Intelligence Unit.

Current-account balance
(% of GDP)



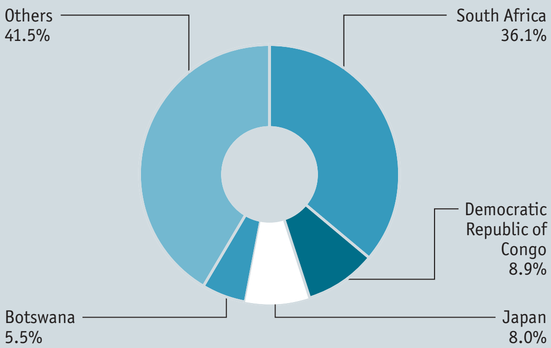
Source: Economist Intelligence Unit.

Total external debt
(% of GDP)



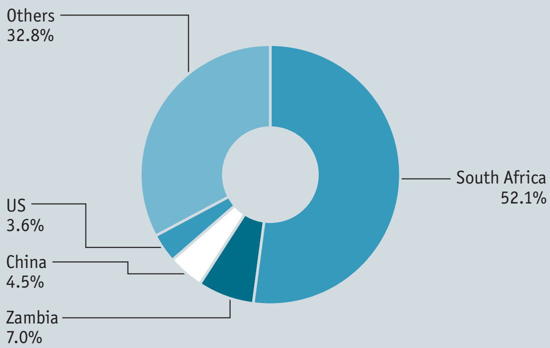
Source: Economist Intelligence Unit.

Main destinations of exports, 2008
(share of total)



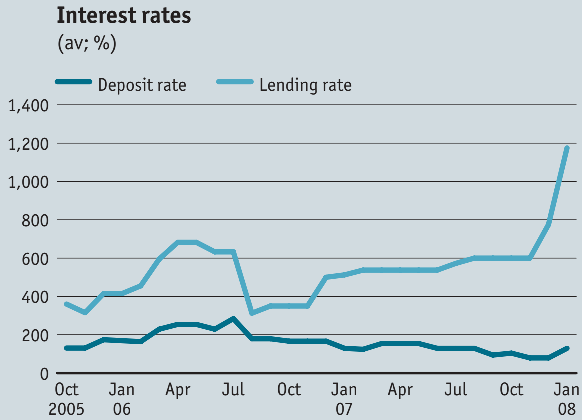
Source: Economist Intelligence Unit.

Main origins of imports, 2008
(share of total)



Source: Economist Intelligence Unit.

Monthly trends charts



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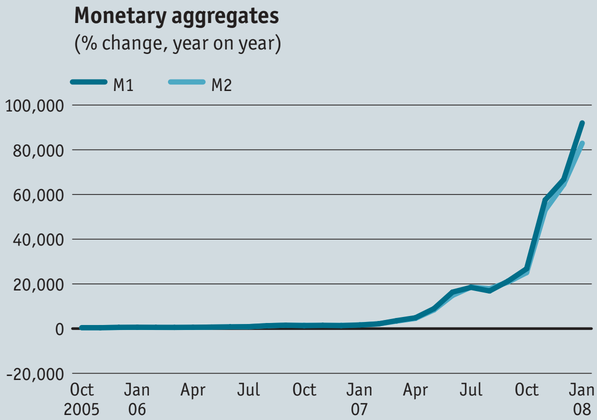
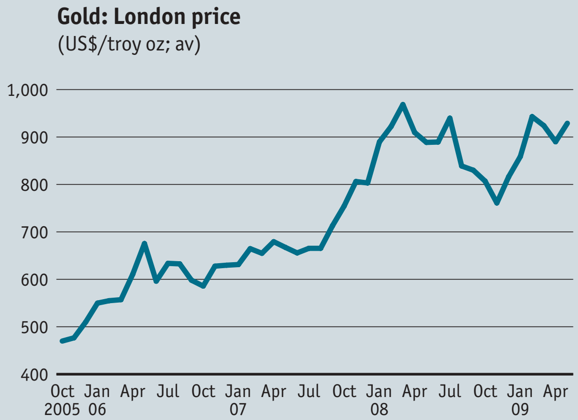
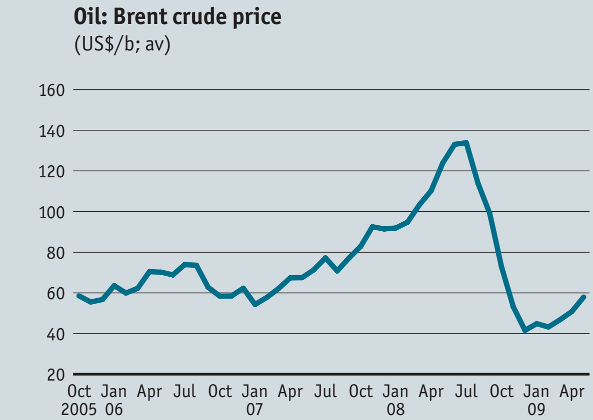


Source: Economist Intelligence Unit.



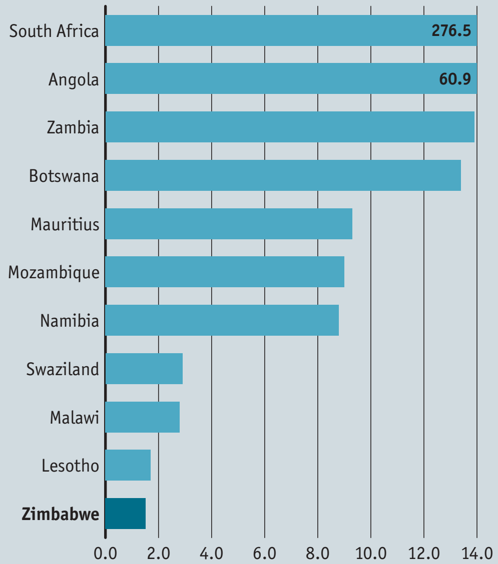
Source: Economist Intelligence Unit.



Source: Economist Intelligence Unit.

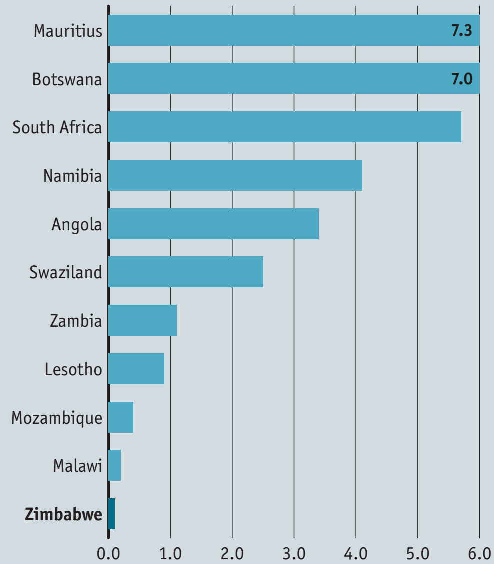
Comparative economic indicators, 2008

Gross domestic product
(US$ bn; market exchange rates)



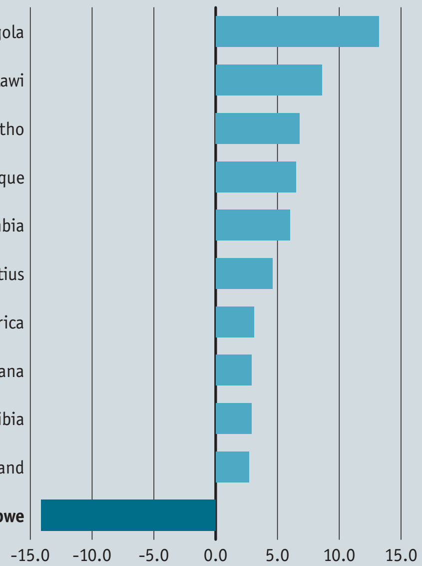
Sources: Economist Intelligence Unit estimates; national sources.

Gross domestic product per head
(US$ '000; market exchange rates)



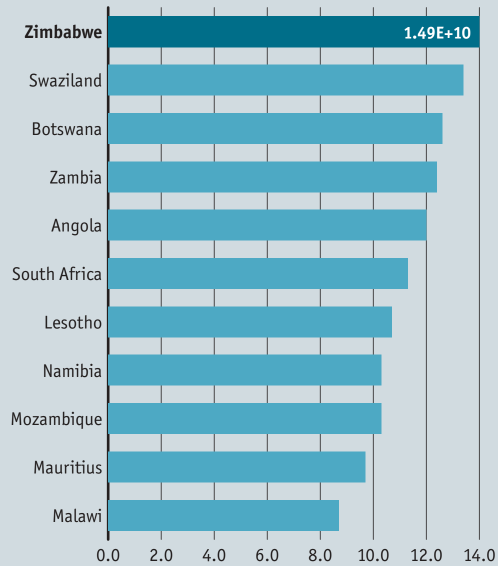
Sources: Economist Intelligence Unit estimates; national sources.

Gross domestic product
(% change, year on year)



Sources: Economist Intelligence Unit estimates; national sources.

Consumer prices
(% change, year on year)



Sources: Economist Intelligence Unit estimates; national sources.

Country snapshot

Basic data

Land area 390,580 sq km

Population 13.2m[a] (2006, IMF mid-year estimate)

Main towns Population in '000, 2002 (independent estimates)

Harare (capital)	1,444
Bulawayo	676
Chitungwiza[b]	321
Gweru	137

Climate Subtropical

Weather in Harare (altitude 1,472 metres) Hottest months, October and November, 16-27°C; coldest months, June and July, 7-21°C (average daily minimum and maximum); driest month, July, 1 mm average rainfall; wettest month, January, 196 mm average rainfall

Languages English (official), Shona, Ndebele and local dialects

Measures Metric system

Currency Zimbabwe dollar (Z$) = 100 cents; rampant inflation in recent years has meant that the Reserve Bank of Zimbabwe has periodically been forced to re-denominate the dollar, removing zeros

Time 2 hours ahead of GMT

Public holidays January 1st (New Year's Day), Good Friday, Easter Monday, April 18th (Independence Day), May 1st (Workers' Day), May 25th (Africa Day), August 11th (Heroes' Day), August 12th (Defence Forces' National Day), December 22nd (Unity Day), December 25th and 26th (Christmas Day and Boxing Day); many firms close for a summer break of one to two weeks over the Christmas and New Year period

[a] Estimates of Zimbabwe's population vary considerably depending on how they account for the impact of AIDS. The most recent census was in 2002; preliminary results show a population of 11.6m—about 2m below earlier projections. [b] Harare's former township.

Political structure

Official name	Republic of Zimbabwe
Form of state	Unitary republic
Legal system	Based on Roman-Dutch law and the 1979 constitution
National legislature	House of Assembly with 150 members, 120 of whom represent geographical constituencies and are elected by universal adult suffrage every five years; eight are provincial governors, ten are customary chiefs and 12 others are appointed by the president; a Senate of 66 members was established in November 2005
National elections	March 2008 (presidential, legislative and Senate)
Head of state	President, elected by universal suffrage for a six-year term
National government	The president and his appointed cabinet; a power-sharing government was formed in February 2009 in accordance with an agreement signed after the disputed 2008 elections
Main political parties	Zimbabwe African National Union-Patriotic Front (ZANU-PF), the ruling party since 1980; the Movement for Democratic Change (MDC), formed by the trade union movement in September 1999; a number of smaller parties and independent candidates also contest elections

	President	Robert Mugabe
	Prime minister	Morgan Tsvangirai
Key ZANU-PF ministers	**Agriculture, mechanisation & irrigation**	Joseph Made
	Defence	Emmerson Mnangagwa
	Energy & water development	Kenneth Konga
	Environment & natural resources management	Francis Nhema
	Foreign affairs	Simbarashe Mumbengegwi
	Justice & legal affairs	Patrick Chinamasa
	Lands & rural resettlement	Herbert Murerwa
	Media, information & publicity	Webster Shamu
	Mines & minerals development	Obert Mpofu
	Transport & infrastructural development	Nicholas Goche
Key MDC ministers	**Economic planning & investment promotion**	Elton Mangoma
	Education, sport, art & culture	David Coltart
	Energy & power development	Elias Mudzuri
	Finance	Tendai Biti
	Health & child welfare	Henry Madzorera
	Home affairs	Giles Mutsekwa
	Housing & social amenities	Fidelis Mhashu
	Industry & commerce	Welshman Ncube
	Labour & social security	Paurina Gwanyanya
	Public works	Theresa Makone
Reserve Bank governor	Gideon Gono	